South Carolina Legislative Audit Council

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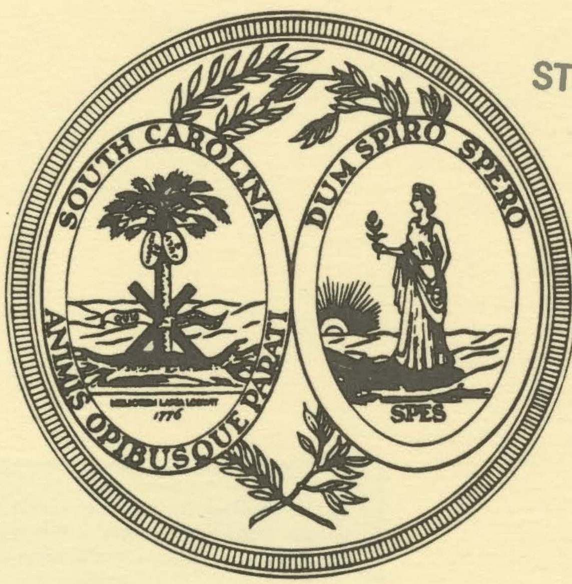
Report to the General Assembly

December 1989

A Limited-Scope Review of the State's System for Assessing and Funding School District Capital Improvement Needs



LAC/SDE-89-3

Legislative Audit Council

400 Gervais Street
Columbia, SC 29201
(803)253-7612

Authorized by §2-15-10 *et seq.* of the South Carolina Code of Laws, the Legislative Audit Council, created in 1975, reviews the operations of state agencies, investigates fiscal matters as required, and provides information to assist the General Assembly. Some audits are conducted at the request of individual legislators or groups of legislators who have questions about potential problems in state agencies or programs; other audits are performed as a result of statutory mandate.

The Legislative Audit Council is composed of three public members, one of whom must be a practicing certified or licensed public accountant, and six ex officio members.

Audits of the Legislative Audit Council conform to generally accepted government audit standards as set forth by the U.S. General Accounting Office.

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A Limited-Scope Review of the State's System for Assessing and Funding School District Capital Improvement Needs was conducted by the following audit team. Please direct questions or comments to the audit manager.

Audit Manager
Sara Schechter-Schoeman, J.D.
Principal Auditor

Typography
Candice H. Pou
Maribeth Rollings Werts

Audit Team
Andrew M. Young
Senior Auditor
Bethany Allen Narboni
Assistant Auditor
Robert Chatman
Assistant Auditor

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Contents

Introduction and Summary

Audit Scope, Methodology and Objectives

This audit was conducted pursuant to §59-20-60(6) of the Education Finance Act (EFA) which requires the Legislative Audit Council to conduct EFA audits and make recommendations to the General Assembly. The objective of this audit was to review the state's system for identifying and funding school district capital improvement needs. This objective was selected in consultation with public and ex officio members of the Legislative Audit Council. Capital improvement needs have not been funded by the EFA, except for FY 79-80. They are linked to the EFA, however, because the condition of school buildings can affect EFA's objective of providing equitable educational opportunities.

This narrow scope review addresses the following topics: the system by which the State Department of Education (SDE) identifies the need for school buildings; the effect of inflation on funding levels; funding in relation to district wealth; the impact that changes in the state's required minimum educational programs have had on school buildings; local financing of capital improvement needs; and capital improvement programs in other southeastern states.

In conducting this review, we interviewed officials at the State Department of Education, administrators of three school districts, two private education associations, staff of four legislative committees, and other interested parties. We also contacted the states of Florida, Georgia, North Carolina and Virginia. In addition, we reviewed data and reports from SDE and the private sector. The inflation and funding data used covered the 20 years from 1970 through 1989. Other information analyzed was primarily from the years 1987 to 1989. Appendix C (see p. 29) details the methodology used to reallocate funds according to wealth. Other methodologies employed are described in the appropriate sections of the report. This report was conducted in accordance with generally accepted government auditing standards.

Summary

We found that neither the State Department of Education nor any other state entity has an adequate system for assuring that local school districts' building and renovation needs are accurately and consistently identified (see p. 1). We also found that several factors have affected the ability of local school districts to meet their building and renovation needs.

- State funding for capital improvements has not kept pace with increasing construction costs. We found that, when inflation is taken into account, funding decreased 46% during the 20-year period ending in FY 88-89 (see p. 6).
- Changes in requirements for educational programs have led to a demand for additional space in school buildings. However, the cost impact of these changes has not been monitored by SDE (see p. 8).
- School district debt limits have been enacted without formal analysis (see p. 10).
- Capital improvement funds are not allocated to districts according to wealth. We conclude that allocating funds based on relative district wealth could provide significant additional funds to poorer districts, even at current funding levels. Allocating funds based on wealth would provide fewer funds for wealthier districts (see p. 14).

We would like to thank the department and its staff for the full cooperation they provided.

System for Assessing Local School Districts' Facilities Needs

Background

State law requires local school districts to provide school buildings for their students. The State Department of Education (SDE) assists local school districts in financing capital improvements, and approves building plans submitted to it. Although the department may make recommendations, it does not establish building priorities for local districts.

In February 1989, the General Assembly passed a concurrent resolution requesting SDE to undertake a comprehensive study of school building construction and renovation needs statewide. In response to this resolution, SDE conducted a survey designed to identify the 91 school districts' building and renovation needs for the next five years. The survey, released in May 1989, projected total construction and renovation needs (excluding asbestos abatement) of approximately $1.5 billion. No new state funds have been provided as a result of the survey.

The Audit Council reviewed the process by which this figure was derived, and attempted to assess the reliability of the survey data. We also made recommendations about obtaining information on building and renovation needs.

Methodology

We interviewed Department of Education officials and visited two school districts, Marion School District Four and Hampton School District Two, which were selected because of their high tax effort and low fiscal capacity. (Fiscal capacity is defined as the assessed value of taxable property within a district, adjusted to current market value.)

We also reviewed the eight facilities surveys SDE conducted for individual districts from the beginning of 1987 through August 1989. These are:

1 Chesterfield County School District;
2 Clarendon School District One;
3 Spartanburg School District One;
4 Orangeburg School District Five;

5 Orangeburg School District Six;
6 Edgefield County School District;
7 Clarendon School District Three; and
8 Spartanburg School District Six.

In addition, we examined the 1989 survey responses of the ten school districts identified above. Our analysis in this section is based on information from the department and these ten school districts. An overview of capital improvement programs in four other states is contained in Section 6.

Survey of District Facilities Needs

Neither the Department of Education nor any other state entity has an adequate system for assuring that local school districts' building needs are accurately and consistently identified. Because the department relies primarily on self-reported data for its statewide estimate, and because districts have interpreted the survey questionnaire inconsistently, state officials may not have reliable information on the funding required to meet the state's school building needs.

Several factors, including the language of the questionnaire and the procedures used by the department, which may have affected the reliability of the survey data, are discussed below.

Differing Interpretations of Survey Questionnaires

The May 1989 estimate of school building needs was based on responses to a questionnaire mailed to all districts along with a cover letter, instruction sheet and sample chart (see Appendix B). Districts were asked to estimate the need for classroom space and how this need could be met, for example, by new construction or "major" renovation of existing classrooms. The school districts we contacted had difficulty interpreting several items on the 1989 survey questionnaire.

School districts and the department indicated it was unclear what belonged in the "major" renovation category. The questionnaire and instructions contained no guidelines on this. According to SDE, districts also might not have known if they were to report needs for facilities (such as rest rooms or heating systems) that were not specified on the form. In addition, the questionnaire had no category for reporting "minor" renovations to classrooms which, cumulatively, could have a major cost.

Districts were also asked to estimate whether the needs for non-classroom space would be met by new construction or "renovation." It is not clear if *all* renovation needs for non-classroom space should be reported, or only "major" renovation needs, as in the case of classrooms.

Officials within districts also differed in their interpretation of the survey questions. In one district, the interim superintendent who completed the 1989 survey indicated the only need was to renovate three classrooms. However, his successor stated that constructing and equipping science laboratories, replacing unreliable heating systems, and renovating other classrooms should have been included.

In another instance, a district had reported in 1986 that it needed a new middle school. Despite directions stating that needs should be listed even if financial resources were not available, the district did not report the need again in 1989 because the district did not think it could obtain funding for the project.

Department of Education Procedures and Constraints

Department of Education procedures and constraints also may have had an impact on the validity of the information collected in the 1989 survey. The General Assembly's concurrent resolution required SDE to promptly report its results. SDE staff stated that, to assure prompt reporting, they did not visit the districts for on-site verification, and did not pre-test the questionnaire on sample districts.

The department also has no established criteria for determining when to request clarification of a district's response to the questionnaire. However, the department stated that it contacted over one-third of the districts to verify or clarify their responses. In our review of ten survey responses, we found one district stated that it needed to replace all three of its schools within three years, but also reported that it needed to construct a new gym and renovate two libraries at the schools being replaced. When we questioned this response, SDE said these needs would be met by construction of the new schools, and should not have been reported twice. However, this double-reporting had not been detected by SDE. Therefore, the cost figure assigned for this school district may be overstated by approximately $2,000,000.

On-site Building Needs Assessments

Not all school districts employ staff with the technical expertise to conduct thorough and systematic assessments of their building and renovation needs. They also may not have the funds to hire a consultant. In an effort to provide needed technical expertise, SDE conducts assessments, without charge, at the request of school districts. These reports provide detailed information, using standards that are consistent from district to district. The SDE reports also typically contain population and growth trend data and an analysis of the district's financial capacity.

If this information were available for every school district, it could be a valuable tool in accurately assessing statewide needs. However, these SDE studies are now conducted only on a request basis, and there is often a one-year backlog in filling the requests. SDE conducted eight facilities assessments for local school districts in the last 2½ years. There is no requirement for the department to conduct comprehensive assessments of all districts; the survey section of SDE, which conducts these studies, stated it would not have sufficient staff to conduct reviews of all districts.

Recommendations

1 If the Department of Education is again requested by the General Assembly to gather statewide information on school districts' facilities needs, it should take steps to increase the reliability of the survey responses. These steps could include pre-testing questionnaires, clarifying

written instructions and responses, and providing training for all districts to assure greater consistency in survey interpretation.

2 Alternatively, if the Department of Education is again requested by the General Assembly to gather statewide information on school districts' facilities needs, it may wish to consider reallocating its staff to expand its teams of facilities consultants. These teams, on a regular rotating schedule, could assess the building needs of all districts using standard criteria. A limitation of this approach is that the department, even with reallocation of staff, might not have the staff to provide comprehensive information for all districts within the same year.

3 If the General Assembly determines that a one-time, baseline measure of facilities is needed, it may wish to consider contracting for such an assessment, to be conducted in close cooperation with SDE and district personnel. This would provide information for all districts simultaneously.

4 If the General Assembly considers legislation to increase state funds for school construction, it may also wish to include a system to evaluate facilities needs and to allocate such funds.

Funding Levels Adjusted for Inflation

The Audit Council reviewed capital improvement funds allocated to school districts from FY 69-70 through FY 88-89. We found that, when inflation is taken into account, per pupil funding decreased 46% (from $27.50 to $14.90 in 1970 dollars) during the 20-year period.

Table 2.1 shows capital improvement allocations from state general funds, Education Improvement Act (EIA) funds, and Education Finance Act (EFA) funds. Total funds per pupil increased from $27.50 in FY 69-70 to $45.56 in FY 88-89. EIA funds caused the allocation to significantly increase in FY 84-85, however, EIA funds decreased in subsequent years.

Table 2.1 also shows the yearly allocations adjusted for inflation. The inflation adjustments were calculated using a building cost index for Charleston, South Carolina. This index is published by Marshall and Swift, a private firm which collects building cost data of cities in the United States and Canada. It is widely used by real estate appraisers in South Carolina. The only city in South Carolina for which Marshall and Swift publishes a cost index is Charleston. Building cost indexes measure changes over time in the cost of constructing buildings. From January 1970 to January 1989 the Charleston index increased from 100.0 to 305.7, meaning that replacing a 1970 building in 1989 would cost approximately 3.1 times the original cost.

We used the Marshall and Swift index to present each year's allocation in 1970 dollars. The $45.56 allocation in FY 88-89 would be worth $14.90 in 1970 dollars. Thus, the FY 88-89 allocation was 46% less than the FY 69-70 allocation. To fully compensate for inflation since FY 69-70, it would have been necessary to allocate $84.06 per pupil in FY 88-89.

Table 2.1: State Capital Improvement Funds From FY 69-70 through FY 88-89*

Fiscal Year	General Funds Per Pupil	EIA Funds Per Pupil	EFA Funds Per Pupil	Total Funds Per Pupil	Building Cost Index (1970 = 100)	Total Funds Per Pupil in 1970 Dollars
69-70	$27.50	$0	$0	$27.50	100.0	$27.50
70-71	NA	NA	NA	NA	105.8	NA
71-72	27.00	0	0	27.00	117.7	22.94
72-73	27.00	0	0	27.00	125.7	21.49
73-74	27.00	0	0	27.00	134.3	20.11
74-75	NA	NA	NA	NA	149.8	NA
75-76	NA	NA	NA	NA	156.8	NA
76-77	27.00	0	0	27.00	161.9	16.68
77-78	30.00	0	0	30.00	173.7	17.27
78-79	30.00	0	0	30.00	187.7	15.99
79-80	30.00	0	9.72	39.72	207.4	19.15
80-81	30.00	0	0	30.00	226.7	13.24
81-82	27.61	0	0	27.61	231.4	11.93
82-83	30.00	0	0	30.00	238.8	12.56
83-84	30.00	0	0	30.00	254.3	11.80
84-85	30.00	93.02	0	123.02	264.8	46.46
85-86	30.00	55.29	0	85.29	276.6	30.83
86-87	30.00	29.57	0	59.57	281.7	21.15
87-88	30.00	16.29	0	46.29	291.3	15.89
88-89	29.01	16.55	0	45.56	305.7	14.90

NA = Funding data not available.

*Pupil data used by the Audit Council for this analysis are 35-day enrollment statistics for the preceding year. We used the same pupil count methodology for each year to enable comparison between years. The pupil data used by SDE to allocate capital improvement funds for the years in which funding data were available are as follows:

- General funds FY 69-70 through FY 87-88--preceding year 35-day enrollment. FY 88-89--second preceding year, 135-average daily membership.
- EIA funds FY 84-85 through 87-88--preceding year 135-day average daily membership. FY 88-89--second preceding year, 135-day average daily membership.
- EFA funds FY 79-80--preceding year 35-day enrollment.

Sources: Unaudited funding and pupil data from the South Carolina Department of Education. Building cost index from Marshall and Swift.

Cost Impact of Program Changes

We reviewed three school districts and found that changes in the Defined Minimum Program (DMP) and the Education Improvement Act (EIA) have resulted in additional space requirements. However, the cost of the additional space required has not been funded by the state, resulting in increased fiscal pressures on local school districts, as described below.

The need for improved and expanded buildings has, in part, been due to an expansion of required instructional programs. These include:

- compensatory programs in reading and math;
- remedial programs in reading, writing, and math;
- gifted and talented program;
- four-year-old program, including "at risk" students; and
- increase from 18 to 20 units needed to graduate from high school.

Methodology

The impact of the EIA and changes in the Defined Minimum Program standards on school facilities were discussed with school officials in Bamberg School District Two (Denmark-Olar), Hampton School District Two (Estill), and Marion School District Four (Britton's Neck). These districts were selected because they have a low fiscal capacity per pupil. (Fiscal capacity is the assessed value of property located within a school district adjusted to account for current market value). The districts have shown a need for improved buildings but have not had the funds to provide them.

This analysis of the cost impact of EIA and DMP changes on school facilities is based on observations and discussions with three school districts and with SDE officials.

Impact on Districts

School districts have met the increased needs mainly by utilizing existing space, part of which was not originally designed for instruction. In some cases, school districts have provided additional instructional space in less than optimal learning environments. For example, some classes are housed in a former book room and in a former storage room. A stage and a walk-through corridor are also being used for instruction. Other instructional programs are being housed in portable units and in areas that had not been designed for instructional use. All of the school districts contacted and/or visited stressed the need for additional classroom space to better implement or expand required instructional programs.

The State Department of Education and local school districts are aware that districts have made changes and renovations to comply with state mandated programs, without financial assistance from the state to provide facilities needed for these programs. In a December 1988 audit report, we recommended that a comprehensive cost analysis regarding all proposed changes in the DMP be conducted. However, analyzing costs associated with all mandated educational changes would enable better planning and budgeting for state and local education officials. There has been no systematic monitoring of building or renovation costs incurred to implement or expand programs. Neither the Department of Education nor the local school districts keep track of these costs. Without a systematic way to track and report these costs, the state may not be aware of the increasing financial burden borne by local school districts.

Recommendation

5 The State Department of Education, with the cooperation of local school districts, should conduct a comprehensive analysis of the renovation and construction costs associated with proposed changes in all mandated educational programs.

Local Financing of Capital Improvement Needs

In this section we address the manner in which local financing of school districts has been restricted by the state, and the use of lease-purchase financing by some districts.

The state constitution limits the amount of debt local school districts can incur in financing capital improvements without approval by voters in a bond referendum. Currently, the outstanding principal amount on a district's bonds cannot exceed 8% of its assessed valuation of taxable property except by referendum.

Prior to 1982, school districts had widely varying limits on the amount of bonded indebtedness they could incur. For example, Calhoun and Edgefield school districts had bonded indebtedness limits of 8% prior to 1982, while Lexington Districts One, Four, and Five had bonded indebtedness limits of 75%. The average bonded indebtedness limit was approximately 25%. In 1982, a constitutional amendment took effect which set the bonded indebtedness limit at 8% for all districts. This limit only applies to bonded indebtedness incurred after 1982.

In FY 87-88, at the 8% debt limit, all districts combined could incur bonded indebtedness of up to $528 million on bonds issued after 1982 without approval by the voters. At the pre-1982 average debt limit of 25%, the amount would have been approximately $1.6 billion for FY 87-88. The Audit Council found no public or private entity which monitors, on a state-wide basis, the outstanding principal amount on bonds issued after 1982. We therefore are unable to determine the degree to which districts have approached their existing debt limits.

Debt Limits Set Without Analysis

According to officials with the South Carolina School Boards Association and with the Department of Education, the current debt limit of 8% does not provide adequate access to capital without voter approval and should be raised. However, we were unable to determine whether the current debt limit is set at an appropriate level, because the purpose of the debt limit and the factors to be considered in setting it have not been formally established.

There is no requirement that formal analysis occur prior to setting a debt limit. We found no written analysis which was conducted prior to setting the current debt limit of 8% in 1982. We also found no written criteria in state law regarding the factors to be considered in setting the debt limit.

There are several factors which could be considered when conducting analysis to set a debt limit. One factor which might be considered is the point at which debt begins to threaten the financial stability of a district. The analysis could also include an estimate of the minimal level of funding necessary to provide adequate educational facilities. Another factor which might be considered is the level above which the voters view it in their best interest to approve, through a referendum, the incurrence of debt.

The Method by Which Debt is Limited

We also reviewed the method by which debt is limited. Currently, the outstanding principal amount on a district's bonds cannot exceed a fixed percentage of its assessed valuation of taxable property. This method is called a bonded indebtedness limit.

Under an alternative method for limiting debt, the amount of principal and interest paid annually by a district [debt service] could not exceed a fixed percentage of its total revenue. This method is called a debt service limit.

A debt service limit offers an advantage over a bonded indebtedness limit. Debt service limits are based on actual revenues from all sources instead of potential revenues from property taxes. Thus, a debt service limit may more accurately reflect the ability of districts to meet their debt payment schedules.

Lease-Purchase Financing

As a result of debt limits being lowered from an average of 25% prior to 1982 to 8% after 1982, districts have had reduced access to capital. This lowered debt limit has restricted school districts from obtaining needed capital improvements, while demands for building funds have increased. Thus, local school districts have explored alternative funding methods.

An alternative method of financing, chosen by Lexington One and Orangeburg Five school districts, is lease-purchase. Under a lease-purchase agreement, the use of property is granted in return for specified periodic payments over the lease term, with an option to purchase the property at the end of the term.

The South Carolina Constitution states that general obligation debt, backed by a district's "full faith, credit and taxing power," is subject to the bonded indebtedness limit. However, in 1988 the South Carolina Supreme Court ruled that lease-purchase agreements are not subject to the bonded indebtedness limit, because they are not secured by a district's full faith, credit and taxing power. According to the ruling, districts have the option of terminating a lease by not appropriating funds for it. Therefore, voter approval is not needed for lease-purchase agreements which exceed the 8% limit, unlike bonded indebtedness which is a form of general obligation debt under the state constitution.

Although they are legally distinct, bonded indebtedness and lease-purchase agreements are both used as long-term financing mechanisms. Legislation to define lease-purchase agreements as general obligation debt has been proposed in the General Assembly. Under this legislation, voter approval would be required if the lease-purchase agreement exceeded the debt limit.

Conclusion

Because the purpose of the debt limit and the factors to be considered in setting the limit have not been formally established, we were unable to determine if the limit is set at the appropriate level. In addition, it may be more appropriate to establish debt service limits based on actual revenues from all sources, as opposed to bonded indebtedness limits based on potential revenue from property taxes.

As a result of debt limits being lowered in 1982, districts have had reduced access to capital and have chosen alternative financing mechanisms, such as lease-purchase.

Recommendations

6 The General Assembly may wish to consider requiring that debt limits be preceded by formal analysis and that specific factors be used in this analysis.

7 The General Assembly may wish to consider replacing the current method of limiting debt with a debt service limit based on actual district revenues.

State Funding and District Wealth

In addition to reviewing the level of funding adjusted for inflation, we reviewed the way funds are allocated. In this section we present an analysis of the allocation of state capital improvement funds to local school districts and the impact of reallocating those funds according to district wealth.

Currently, state capital improvement funds are not allocated based on district wealth. We conclude that allocating capital improvement funds based on relative district wealth could provide significant additional funds to poorer districts, even at current funding levels. Wealthier districts would receive a reduction in funding if such a system were implemented at current funding levels. Section 6 of this report (see p. 18) describes capital improvement programs in four other states and their efforts to account for district wealth.

Background

Capital improvement funds are allocated to school districts from general fund revenues and Education Improvement Act (EIA) revenues. These funds comprised approximately 2.5% of all state aid to school districts in FY 87-88. No capital improvement funds are allocated through the Education Finance Act (EFA), which is the only education funding program in South Carolina that allocates funds based on district wealth.

EFA Funding of the Defined Minimum Program

All South Carolina public schools are required by state law to follow a set of educational requirements called the Defined Minimum Program. These requirements include areas such as curriculum, teacher and administrator qualifications, pupil/teacher ratios, attendance, and building standards. The 1977 Education Finance Act (EFA) established a formula for funding some of the costs of the Defined Minimum Program. An average of 70% of the costs included in the EFA formula are funded by the state, while school districts contribute an average of 30%. EFA funding levels are required by state law to be "substantially equitable" for all students "regardless of their geographic location." Accordingly, the state pays *more* than 70%

of the cost in poorer districts and *less* than 70% in wealthier districts.

Not all costs of complying with the requirements of the Defined Minimum Program, however, are funded through EFA. Examples of Defined Minimum Program costs not funded through EFA include fringe benefits, transportation, and *capital improvements*. School districts receive state aid for these costs, but funding is not based on district wealth.

Share of State Aid Based on District Wealth

The share of total state aid to school districts based on district wealth has decreased from approximately 75% in FY 83-84 the year before implementation of the EIA, to approximately 61% in FY 87-88. All EIA funds have been allocated without regard to district wealth.

Methodology

We hypothetically reallocated the actual FY 88-89 allocation of capital improvement funds to compensate for disparity in district wealth. Capital improvement funds include regular school building funds and Education Improvement Act (EIA) building funds.

Our methodology reallocates funds per pupil in inverse proportion to district wealth per pupil. For example, a district with half the wealth per pupil of another district would receive twice the funds per pupil of the wealthier district. Likewise, a district with three times the wealth per pupil of another district would receive one-third of the funds per pupil of the poorer district.

The effect of the reallocation is shown for five groups of districts of similar wealth. Each group represents 20% of the pupils in the state, ranked according to the wealth per pupil in their school districts. Thus, the first group contains the 20% of students whose districts had the highest wealth per pupil, while the last group contains the 20% of pupils whose districts had the lowest wealth per pupil.

We measured district wealth per pupil using fiscal capacity per average daily membership. Fiscal capacity, calculated annually by the South Carolina Tax Commission, is the assessed value of taxable property in school districts, adjusted to current market value. Average daily membership is a measure of average student enrollment during the first 135 days of the school year, calculated annually by the Department of Education.

For detailed methodology, see Appendix C on page 29.

Effect of Reallocation

In FY 88-89, the state allocated approximately $27.7 million in capital improvement funds to local school districts. Table 5.1 shows the effect of reallocating capital improvement funds so that per pupil funding for each district is in inverse proportion to relative district wealth per pupil.

Table 5.1: FY 88-89 State Capital Improvement Funds Reallocated Based on District Wealth

			Actual Funds and Wealth Per Pupil		Hypothetical Reallocation of Funds in Inverse Proportion to Wealth		
Fifth	Wealth Per Pupil	Wealth Share	Funds Per Pupil	Fund Share	Funds Per Pupil	Fund Share	Percent Change
1	$15,610	32.4%	$47	20.0%	$27	11.3%	-43.8%
2	11,048	22.9%	47	20.0%	36	15.3%	-23.3%
3	8,790	18.2%	47	20.0%	45	19.1%	-4.4%
4	7,271	15.1%	47	20.0%	54	23.1%	15.5%
5	5,508	11.4%	47	20.0%	74	31.2%	55.9%
Average	9,645	20.0%	47	20.0%	47	20.0%	0%

Source: Calculated from unaudited SDE funding and pupil data.

The actual allocation for FY 88-89 was not based on district wealth. Each district received approximately equal funds per pupil. Thus, the 20% of students from the wealthiest districts received approximately the same level of funding as the 20% of students from the poorest districts.

Under the hypothetical reallocation, the districts in the three wealthiest fifths would receive reductions, on average, while the districts in the two poorest fifths would receive increases. The districts in the wealthiest fifth would receive an average 43.8% fund reduction, from $47 per pupil down to $27 per pupil. By contrast, the districts in the poorest fifth would receive an average 55.9% increase, from $47 per pupil up to $74 per pupil. Appendix D on page 31 shows the effects of the reallocation on all South Carolina school districts.

Conclusion

If FY 88-89 capital improvement funds had been allocated based on the methodology presented here, the districts least able to raise funds locally would have received significant increases, while the districts most able to raise funds locally would have received significant decreases.

In a December 1988 audit report, we recommended that the General Assembly consider reviewing whether all education funds should be allocated based on relative district wealth.

Recommendation

8 The General Assembly may wish to consider alternative methodologies for allocating state capital improvement funds.

Capital Improvement Programs in Other States

The Audit Council contacted state department of education officials in Florida, Georgia, North Carolina, and Virginia to obtain an overview of their methods of identifying and funding school district capital improvement needs. These overviews, based on interviews and agency documents, are presented below. We did not compare funding levels between states, because widely varying methods are used by states to fund capital improvements and other programs. These varying funding methods could cause inaccurate comparisons to be made.

Florida

The Florida Department of Education reports that each school district is required to have a facilities survey conducted every five years. These surveys may be conducted by the department, local districts, or by consultants hired by the districts. If not conducted by the department, the surveys must be approved by the commissioner of education. A list of capital improvement projects on which state funds are authorized to be spent is established.

The level of state funding allocated to an individual school district is not based on the list of approved capital improvement projects. The majority of funds for construction are allocated on a per pupil basis, including funds earmarked for construction due to growth. A portion of the construction funds is allocated to projects for which districts lack sufficient funds. Maintenance and remodeling funds are allocated based on square footage and building age.

Revenue sources include a utility bill tax and a motor vehicle license tax. In addition, the state sells bonds for districts, which are repaid out of future state capital improvement fund allocations.

Georgia

The Georgia Department of Education reports that each school district is required to have a facilities survey conducted every five years. The surveys provide a list of needed renovations, modifications, and new construction projects. The department provides consultation and technical assistance in the development of the surveys. The state board of education must approve the surveys.

The share of state funds allocated to each district is based on the cost of the projects in the district's facilities survey as a percentage of the facilities needs for all districts combined. State funding requires a district match of 10% to 25%, depending on the wealth of the district. Districts are eligible for increased funding if certain standards, including minimum school size and the development of middle schools, are met.

North Carolina

The North Carolina Department of Education reports that since 1988 each school district has been required to file a long-range facility needs plan with the state every five years. In addition, the department conducts facility needs studies for school districts, upon request of the districts. On an irregular basis, the department conducts statewide surveys of facility needs, based on self-reported data from local school districts.

North Carolina provides local districts with capital improvement funds from several revenue sources. Among the sources of revenue are local sales taxes and inventory taxes. The majority of funds are allocated without regard to wealth; however, one funding program focuses on poorer school districts.

Virginia

The Virginia Department of Education reports that it conducts a statewide capital improvement survey every two years, based on self-reported data from local school districts.

Virginia provides no direct state funding to local school districts for capital improvements. However districts can obtain low-interest loans from the state, which are a form of subsidy. The interest charged on the loans varies from 2% to 6% according to the wealth of the district. Districts can also sell bonds through a statewide bond pool.

Appendices

Glossary

Average Daily Membership (ADM) - A method of counting students using average student enrollment during the first 135 days of the school year.

Defined Minimum Program (DMP) - A series of standards established by the State Board of Education to meet the public schools' minimum accreditation requirements.

Debt Service - The amount of principal and interest paid annually toward retiring a loan.

Education Finance Act (EFA) Formula - The funding formula which determines EFA allocations to local school districts. Statewide, an average of 70% of the EFA costs are paid by the state and 30% by local districts. The state pays a higher percentage for poorer districts and a lower percentage for wealthier districts.

Education Improvement Act (EIA) - A package of more than 60 programs for educational reform designed to raise academic performance through increased academic standards. It is funded by a one cent sales tax.

Fiscal Capacity - The assessed value of taxable property within a district adjusted to current market value, calculated annually by the South Carolina Tax Commission.

General Obligation Debt - Any indebtedness which is secured by taxes on the property within the political entity.

SDE Facilities Survey Questionnaire and Cover Letters

STATE OF SOUTH CAROLINA

DEPARTMENT OF EDUCATION

COLUMBIA 29201

Charlie G. Williams
State Superintendent of Education

TO: District Superintendents

FROM: Charlie G. Williams CGW
State Superintendent of Education

SUBJECT: Survey of School Facilities Needs

DATE: February 20, 1989

In 1981, the Blue Ribbon Committee to Study Financing of Public School Facilities made a study of the magnitude of school building needs that existed in the state. With your help, a statewide assessment was conducted and it was determined that needs totaled more than $1.6 billion across the state. This information played a significant role in the legislative debate over the Education Improvement Act.

In 1986, an update of the 1981 study was provided to the Legislature. Recently, the Legislature has requested that the Department of Education provide a further update of the study to assist in their deliberations. Accordingly, we are again asking for your help. Enclosed you will find a questionnaire that is very similar to the one you responded to in 1986. Also enclosed is a copy of the information you provided at that time, and instructions for completion of the form.

One major problem in projecting building costs is the validity of the data presented. When responding to the questionnaire be sure to state the actual needs of your district. You should list these needs even if financial resources are not presently available to fund the needed improvements. A cost projection will be made for each district based upon statewide average costs. This information will be shared with you.

Your complete and accurate response to this instrument will be appreciated. The information obtained may have a crucial impact during the upcoming funding deliberations. Please respond no later than March 10.

STATE OF SOUTH CAROLINA

DEPARTMENT OF EDUCATION

COLUMBIA 29201

Charlie G. Williams
State Superintendent of Education

TO: District Superintendents

FROM: Walter Procko
Chief Supervisor, Surveys Section

RE: Instructions for completion of the questionnaire

DATE: February 20, 1989

Please note the enclosed copy of your district's 1986 questionnaire as well as a new 1989 survey form. You will note a box on the new form where you can indicate whether the facilities needs you indicated on the 1986 survey have been met. If they have not and they remain identical, you may so indicate by initialing this box. If you do initial this box, the data on your 1986 survey will be transposed to the new questionnaire by the Surveys Section staff. This transposition will mean that each year's needs will be moved three years forward. That is, 1986-87 facilities needs on your previously completed form will become 1989-90 needs on the new form. If you chose this option, then you need only complete the financial information requested in Part IV.

However, if some of your facilities needs have been met or have otherwise changed in the last three years, you are asked to complete the entire survey, Parts II to IV.

Finally, for those superintendents who did not complete a survey form in 1986, samples of appropriately entered data have been included to assist you in this process.

Thank you for your cooperation in this effort.

enclosures

SAMPLE FOR PREPARATION OF CHART 1

CHART 1. NUMBER OF TEACHING STATIONS (include vocational facilities)

	School Years					
Teaching Stations provided by:	89-90	90-91	91-92	92-93	93-94	94-95
A. New construction of complete schools			45			
B. Teaching stations added to existing schools				10		

"45" under 91-92 refers to a need for one new school with 45 teaching stations to be built in the 1991-92 school year.

"10" under 92-93 refers to a need for 10 new teaching stations added to an existing school in 1992-93

SAMPLE FOR PREPARATION OF CHART 2

CHART 2 OTHER FACILITIES NEEDS

	School Years					
Other needs not included in Chart 1	89-90	90-91	91-92	92-93	93-94	94-95
A. Gymnasium (construction/renovation)			1			
B. Cafeteria				1		

"1" under 91-92 refers to a need for one new gymnasium to be built in the 1991-92 school year. (This new gymnasium is in addition to one automatically included in the construction of the new school of 45 teaching stations in the 91-92 column of Chart 1.)

"1" under 92-93 refers to a need for 1 renovation to an existing school cafeteria in the 1992-93 school year.

School District Questionnaire on Facilities Needs ______________________

(District)

I. Information from the 1988 Basic Educational Data System (BEDS) report indicates that the following number of teaching stations and temporary (mobile) buildings are located in your district. Please correct these numbers as necessary.

[ ] total teaching stations [ ] temporary buildings

A copy of your district's 1986 survey is included for your information. If there have been no changes in Charts 1 and 2 in the past two years, then SDE will use your 1986-92 data, advancing it three years to complete the 1989-95 columns on this form.

[ ] Please initial here if your facilities needs form of 1986 has **not changed.** Go on to Part IV at the bottom of this page and complete the financial section of this survey.
If you do not initial this box, please complete all sections, II - IV below.

II. Below you will find a chart that lists several ways of providing needed teaching stations and a column for each of the next six years. Please give us your estimate of the number of teaching stations your district will need in each year as listed below. Consider such factors as enrollment increases, the addition of new programs, and the replacement of inadequate teaching stations. Please provide the estimated number of **teaching stations** needed even if necessary funds may not be available.

CHART 1

NUMBER OF TEACHING STATIONS (include vocational facilities)

	School Years					
Number of teaching stations provided by:	**89-90**	**90-91**	**91-92**	**92-93**	**93-94**	**94-95**
A. New construction of complete schools						
B. Teaching stations added to existing schools						
C. Major renovation of existing teaching stations						
D. Acquisition of temporary units						
TOTALS						

III. Specify other new construction and/or major renovation needs by entering the number of such for each of the next six years. Do not duplicate facilities included in Chart 1 that would be included in the construction of new schools, such as gymnasiums and cafeterias (please note the sample provided in the cover letter).

CHART 2

OTHER FACILITIES NEEDS

	School Years					
Other needs not included in Chart 1:	**89-90**	**90-91**	**91-92**	**92-93**	**93-94**	**94-95**
A. Gymnasium (new construction/renovation)	/	/	/	/	/	/
B. Cafeteria (new construction/renovation)	/	/	/	/	/	/
C. Library/Media Center (new construction/renovation)	/	/	/	/	/	/
D. Administrative Area (new construction/renovation)	/	/	/	/	/	/
E. Teacher Workrooms (new construction/renovation)	/	/	/	/	/	/
F. Other (specify)______________	/	/	/	/	/	/

IV. A. Most recent total assessed valuation ______________ (as of ___ / ___, 198 __).
Multiply by 8% (x .08) to determine constitutional debt limitation. .... A) + ______________

B. What is the principal remaining on any bonds issued on or after
Dec. 1, 1982 (effective date of Article X bonding limitation of 8%)? .... B) - ______________

C. What is the unspent balance on the above bonds? .... C) + ______________

D. If a bond referendum has been approved in your district, what was the
amount approved? ______________ How much has been spent? ______________
Your unspent balance is .... D) + ______________

TOTAL LOCAL FUNDS NOT YET SPENT: (A - B + C + D =) .... $ = ______________

If you have any questions about this survey, contact Walter Procko at 734-8319.

Return form to: (by 3/10/89)
State Dept. of Education
Surveys Section
Rutledge Building, Room 703
Columbia, SC 29201

____
Superintendent's signature

____
Chairman, District Board of Trustees' signature

SDE 28-037-01
(this form becomes obsolete 6/30/92)

Methodology for Allocating Funds in Inverse Proportion to District Wealth

Table 5.1 and Appendix D display the results of our analysis of state capital improvement funding of school districts in relation to district wealth.

In this methodology, wealth is defined as fiscal capacity per average daily membership (ADM). The steps used in this analysis are listed below.

1 All school districts were ranked in descending order according to fiscal capacity per ADM. Data for each district included fiscal capacity, ADMs, and state capital improvement funds (regular and Education Improvement Act building funds). These data were obtained from the South Carolina Department of Education.

2 The districts were separated into five groups, each containing 20% of statewide ADMs. To maintain equal ADMs in each fifth, data for districts at the breakpoints between fifths were prorated to the next higher and lower fifths. Grouping the districts into fifths was done only to present more clearly fund allocation data as they affect ADMs within districts of comparable fiscal capacity per ADM. This grouping is not related to the allocation method presented in the analysis.

3 Fiscal capacity and state funds per ADM for each district were calculated.

4 Total fiscal capacity, ADMs, and state funds for each fifth were calculated. Each fifth's percentage of statewide fiscal capacity, ADMs, and state funding was calculated.

5 Funding per ADM for each district was adjusted to allocate funds in inverse proportion to relative fiscal capacity per ADM. With this *fiscal capacity allocation*, the ratio of funding per ADM between any two districts will be exactly equal to the inverse of the ratio of fiscal capacity per ADM between the same districts. For example, a district with half the fiscal capacity per ADM of another district would receive twice the funding per ADM of the wealthier district.

The Audit Council developed the following formula to calculate the fiscal capacity allocation for each district.

$$\text{Fiscal capacity allocation} = \overset{(A)}{\text{Initial adjusted allocation}} \times \overset{(B)}{\text{funds available factor}}$$

$$\text{A}\quad \text{Initial adjusted allocation} = \frac{\text{statewide funds}}{\text{statewide ADMs}}\ (\text{district ADMs}) \times \frac{\text{statewide fiscal capacity per ADM}}{\text{district fiscal capacity per ADM}}$$

$$\text{B}\quad \text{Funds available factor} = \frac{\text{statewide funds available}}{\Sigma\ \text{initial adjusted allocation for all districts}}$$

Part A of the formula first allocates equal dollars per ADM to each district, then multiplies the allocation by the ratio of the statewide average fiscal capacity per ADM to the district fiscal capacity per ADM. After calculating the initial adjusted allocation for each district (Part A), each initial adjusted allocation was multiplied by the funds available factor (Part B). This factor is equal to total funds available for the program divided by the sum of the district allocations from Part (A), ensuring that the total fiscal capacity allocations are equal to total funds available.

6 Total fiscal capacity allocations for each fifth were calculated. The allocations necessary to fund districts in precise inverse proportion to relative fiscal capacity per ADM may not result in the allocations to fifths being in precise inverse proportion to their relative fiscal capacity per ADM.

FY 88-89 State Capital Improvement Funds Reallocated Based on District Wealth

			ACTUAL FUNDS AND WEALTH PER PUPIL			HYPOTHETICAL REALLOCATION OF FUNDS IN INVERSE PROPORTION TO WEALTH		
SCHOOL DISTRICT	FISCAL CAPACITY	ADM	FISCAL CAPACITY PER ADM	ACTUAL FUNDS	ACTUAL FUNDS PER ADM	FISCAL CAPACITY ALLOCATION	FISCAL CAPACITY ALLOCATION PER ADM	PERCENT CHANGE
WEALTHIEST FIFTH								
1 BEAUFORT	$285,101,184	10,559.380	$26,999.80	$498,861.14	$47.24	154,238.86	$14.61	-69.08%
2 FAIRFIELD	86,327,655	4,179.865	20,653.22	196,764.66	47.07	79,816.11	19.10	-59.44%
3 HORRY	375,117,733	22,093.385	16,978.74	1,042,048.81	47.17	513,183.78	23.23	-50.75%
4 CALHOUN	31,270,160	1,856.835	16,840.57	87,661.47	47.21	43,484.30	23.42	-50.40%
5 GEORGETOWN	148,364,116	9,842.930	15,073.17	463,789.58	47.12	257,534.79	26.16	-44.47%
6 ANDERSON 4	34,952,587	2,410.630	14,499.36	113,502.56	47.08	65,568.88	27.20	-42.23%
7 CHARLESTON	540,778,270	40,282.640	13,424.60	1,900,237.60	47.17	1,183,402.85	29.38	-37.72%
8A RICHLAND 1A	333,384,582	26,347.670	12,653.29	1,240,571.43	47.08	821,211.29	31.17	-33.80%
TOTAL	$1,835,296,287	117,573.335	$15,609.80	$5,543,437.25	$47.15	$3,118,440.86	$26.52	-43.75%
% SHARE	32.4%	20.0%		20.0%		11.3%		
SECOND FIFTH								
8B RICHLAND 1B	$3,350,210	264.770	$12,653.29	$12,466.61	$47.08	$8,252.42	$31.17	-33.80%
9 GREENVILLE	587,930,711	48,758.485	12,058.02	2,294,524.54	47.06	1,594,741.33	32.71	-30.50%
10 OCONEE	117,617,666	9,811.080	11,988.25	462,350.78	47.13	322,758.04	32.90	-30.19%
11 DORCHESTER 4	28,820,674	2,444.350	11,790.73	115,632.23	47.31	81,759.58	33.45	-29.29%
12 SPARTANBURG 6	83,342,083	7,311.560	11,398.67	343,991.41	47.05	252,971.58	34.60	-26.46%
13 GREENWOOD 52	14,667,076	1,412.000	10,387.45	66,473.61	47.08	53,609.51	37.97	-19.35%
14 SPARTANBURG 7	100,017,067	9,731.815	10,277.33	456,949.42	46.95	373,447.51	38.37	-18.27%
15 YORK 2	29,769,863	2,914.365	10,214.87	137,162.12	47.06	112,519.30	38.61	-17.97%
16 ANDERSON 5	102,663,264	10,491.020	9,785.82	492,735.52	46.97	422,801.34	40.30	-14.19%
17 SPARTANBURG 5	39,806,222	4,094.000	9,723.06	192,689.91	47.07	166,058.35	40.56	-13.82%
18 FLORENCE 1	130,530,114	13,868.535	9,411.96	651,966.39	47.01	581,120.84	41.90	-10.87%
19A KERSHAW A	60,409,626	6,471.355	9,334.93	304,898.112	47.12	273,401.12	42.25	-10.33%
TOTAL	$1,298,924,576	117,573.335	$11,047.78	$5,531,840.65	$47.05	$4,243,440.92	$36.09	-23.29%
% SHARE	22.9%	20.0%		20.0%		15.3%		
THIRD FIFTH								
19B KERSHAW B	$19,513,731	2,090.400	$9,334.93	$98,489.27	$47.12	$88,315.00	$42.25	-10.33%
20 YORK 4	26,870,435	2,892.040	9,291.17	136,219.51	47.10	122,758.02	42.45	-9.88%
21 ORANGEBURG 5	56,213,294	6,076.100	9,251.54	286,417.17	47.14	259,016.11	42.63	-9.57%
22 LEXINGTON 5	97,891,121	10,649.675	9,191.94	501,786.37	47.12	456,925.50	42.91	-8.94%
23 LEXINGTON 2	89,057,579	9,749.695	9,134.40	459,032.23	47.08	420,946.76	43.18	-8.30%
24 COLLETON	57,967,588	6,402.930	9,053.29	301,533.88	47.09	278,925.53	43.56	-7.50%
25 GREENWOOD 50	76,156,550	8,428.245	9,035.87	397,105.11	47.12	367,860.39	43.65	-7.36%
26 YORK 3	108,504,691	12,143.795	8,934.99	570,978.78	47.02	536,014.24	44.14	-6.12%
27 PICKENS	122,451,128	13,790.335	8,879.49	649,772.89	47.12	612,495.40	44.41	-5.74%
28 SPARTANBURG 3	27,388,136	3,149.300	8,696.58	148,537.68	47.17	142,817.55	45.35	-3.85%
29 RICHLAND 2	96,922,196	11,188.290	8,662.82	525,857.45	47.00	509,354.53	45.53	-3.14%
30 DARLINGTON	108,831,161	12,575.900	8,653.95	591,641.60	47.05	573,113.82	45.57	-3.13%
31 SPARTANBURG 4	20,090,530	2,357.195	8,523.07	111,055.76	47.11	109,072.59	46.27	-1.79%

Appendix D
Funds Allocated in Inverse Proportion to District Wealth

SCHOOL DISTRICT	FISCAL CAPACITY	ADM	FISCAL CAPACITY PER ADM	ACTUAL FUNDS	ACTUAL FUNDS PER ADM	FISCAL CAPACITY ALLOCATION	FISCAL CAPACITY ALLOCATION PER ADM	PERCENT CHANGE
	ACTUAL FUNDS AND WEALTH PER PUPIL					HYPOTHETICAL REALLOCATION OF FUNDS IN INVERSE PROPORTION TO WEALTH		
THIRD FIFTH (CONTINUED)								
32 ANDERSON 3	19,284,309	2,359.325	8,173.66	111,024.03	47.06	113,838.05	48.25	2.53%
33 ANDERSON 1	42,828,331	5,511.545	7,770.66	259,698.44	47.12	279,725.18	50.75	7.71%
34 LEXINGTON 4	13,842,709	1,783.270	7,762.54	83,980.52	47.09	90,600.19	50.81	7.88%
35A AIKEN A	49,601,380	6,425.295	7,719.70	302,490.138	47.08	328,252.75	51.09	8.52%
TOTAL	$1,033,414,870	117,573.335	$8,789.53	$5,535,620.83	$47.08	$5,290,031.62	$44.99	-4.44%
% SHARE	18.2%	20.0%		20.0%		19.1%		
FOURTH FIFTH								
35B AIKEN B	$118,994,386	15,414.370	$7,719.70	$725,677.95	$47.08	$787,482.80	$51.09	8.52%
36 ABBEVILLE	29,182,868	3,792.515	7,694.86	178,923.14	47.18	194,376.00	51.25	8.64%
37 CHEROKEE	64,428,315	8,378.215	7,689.98	394,486.02	47.08	429,677.11	51.29	8.92%
38 BERKELEY	189,032,138	24,596.800	7,685.23	1,161,656.03	47.23	1,262,227.29	51.32	8.66%
39 NEWBERRY	45,938,994	6,126.545	7,498.35	289,028.30	47.18	322,229.85	52.60	11.49%
40 LEXINGTON 1	67,843,926	9,393.570	7,222.38	442,591.86	47.12	512,939.77	54.61	15.89%
41 ANDERSON 2	24,357,310	3,458.745	7,042.24	162,762.80	47.06	193,697.38	56.00	19.01%
42 ALLENDALE	16,087,277	2,303.165	6,984.86	108,646.61	47.17	130,041.97	56.46	19.69%
43 DORCHESTER 2	80,132,418	11,511.245	6,961.23	542,078.17	47.09	652,157.27	56.65	20.31%
44 SPARTANBURG 1	25,150,032	3,669.265	6,854.24	172,836.53	47.10	211,123.03	57.54	22.15%
45 FLORENCE 5	8,818,772	1,300.280	6,782.21	61,223.72	47.09	75,610.42	58.15	23.50%
46 YORK 1	25,259,958	3,745.630	6,743.85	176,584.10	47.14	219,044.89	58.48	24.05%
47 UNION	37,774,040	5,621.135	6,720.00	264,894.47	47.12	329,891.09	58.69	24.54%
48 JASPER	18,148,177	2,706.895	6,704.43	127,937.93	47.26	159,230.33	58.82	24.46%
49 SUMTER 17	58,238,574	8,687.365	6,703.82	409,240.98	47.11	511,071.19	58.83	24.88%
50 LAURENS 56	23,708,930	3,581.860	6,619.17	168,895.80	47.15	213,413.19	59.58	26.36%
51A CHESTER A	21,740,631	3,285.735	6,616.67	155,007.10	47.18	195,843.39	59.60	26.34%
TOTAL	$854,836,745	117,573.335	$7,270.67	$5,542,471.51	$47.14	$6,400,056.96	$54.43	15.47%
% SHARE	15.1%	20.0%		20.0%		23.1%		
POOREST FIFTH								
51B CHESTER B	$21,515,366	3,251.690	$6,616.67	$153,401.00	$47.18	$193,814.17	$59.60	26.34%
52 GREENWOOD 51	7,419,177	1,143.965	6,485.49	53,829.04	47.05	69,564.19	60.81	29.23%
53 CLARENDON 1	8,209,375	1,276.470	6,431.31	60,108.90	47.09	78,275.73	61.32	30.22%
54 LANCASTER	67,296,847	10,499.585	6,409.48	494,947.17	47.14	646,049.12	61.53	30.53%
55 LAURENS 55	34,173,274	5,335.170	6,405.28	250,929.29	47.03	328,492.85	61.57	30.91%
56 LEXINGTON 3	14,115,671	2,204.665	6,402.64	103,860.05	47.11	135,799.97	61.60	30.75%
57 CHESTERFIELD	49,109,603	7,671.425	6,401.63	360,903.89	47.05	472,608.64	61.61	30.95%
58 SPARTANBURG 2	39,764,879	6,270.205	6,341.88	294,899.07	47.03	389,923.86	62.19	32.22%
59 EDGEFIELD	22,780,728	3,592.950	6,340.40	169,739.66	47.24	223,486.21	62.20	31.66%
60 FLORENCE 2	8,407,029	1,336.985	6,288.05	63,062.57	47.17	83,854.53	62.72	32.97%
61 BARNWELL 45	14,457,850	2,348.130	6,157.18	110,686.59	47.14	150,403.02	64.05	35.88%
62 BARNWELL 29	6,049,276	1,004.025	6,025.03	47,297.22	47.11	65,720.62	65.46	38.95%

	ACTUAL FUNDS AND WEALTH PER PUPIL					HYPOTHETICAL REALLOCATION OF FUNDS IN INVERSE PROPORTION TO WEALTH		
SCHOOL DISTRICT	FISCAL CAPACITY	ADM	FISCAL CAPACITY PER ADM	ACTUAL FUNDS	ACTUAL FUNDS PER ADM	FISCAL CAPACITY ALLOCATION	FISCAL CAPACITY ALLOCATION PER ADM	PERCENT CHANGE
POOREST FIFTH (CONTINUED)								
63 MCCORMICK	9,300,491	1,555.210	5,980.22	73,277.41	47.12	102,562.40	65.95	39.96%
64 ORANGEBURG 4	9,938,726	1,691.340	5,876.24	79,755.96	47.16	113,513.40	67.11	42.33%
65 SALUDA	12,979,477	2,228.875	5,823.33	105,219.80	47.21	150,948.99	67.72	43.46%
66 ORANGEBURG 7	4,765,435	824.930	5,776.77	38,991.02	47.27	56,318.05	68.27	44.44%
67 ORANGEBURG 3	17,899,773	3,104.995	5,764.83	146,909.62	47.31	212,417.49	68.41	44.59%
68 HAMPTON 1	15,324,449	2,696.590	5,682.90	127,682.57	47.35	187,137.56	69.40	46.56%
69 MARION 1	17,968,011	3,282.925	5,473.17	154,871.47	47.17	236,558.15	72.06	52.74%
70 WILLIAMSBURG	42,262,469	7,723.475	5,471.95	363,900.15	47.12	556,655.64	72.07	52.97%
71 FLORENCE 4	7,247,996	1,367.220	5,301.27	64,563.55	47.22	101,712.62	74.39	57.54%
72 BAMBERG 2	7,897,939	1,505.725	5,245.27	70,997.07	47.15	113,212.28	75.19	59.46%
73 ORANGEBURG 2	4,043,069	771.985	5,237.24	36,722.72	47.57	58,132.98	75.30	58.30%
74 MARION 2	14,424,835	2,829.660	5,097.73	133,472.50	47.17	218,914.06	77.36	64.01%
75 BAMBERG 1	9,416,906	1,850.585	5,088.61	87,190.86	47.12	143,425.32	77.50	64.50%
76 ORANGEBURG 6	4,230,620	832.215	5,083.57	39,322.53	47.25	64,562.90	77.58	64.19%
77 SUMTER 2	39,806,948	8,219.615	4,842.92	388,544.54	47.27	669,360.47	81.43	72.27%
78 LEE	16,560,130	3,434.920	4,821.11	162,095.83	47.19	280,986.53	81.80	73.35%
79 DILLON 2	20,620,443	4,421.575	4,663.60	208,364.99	47.12	373,914.23	84.57	79.45%
80 MARLBORO	28,922,611	6,305.795	4,586.67	297,117.01	47.12	542,198.35	85.98	82.49%
81 CLARENDON 2	14,563,220	3,201.105	4,549.44	151,080.62	47.20	277,497.08	86.69	83.67%
82 HAMPTON 2	6,618,073	1,488.330	4,446.64	70,343.20	47.26	132,002.73	88.69	87.66%
83 ORANGEBURG 1	4,697,657	1,063.940	4,415.34	50,207.02	47.19	95,031.80	89.32	89.28%
84 FLORENCE 3	18,650,507	4,339.410	4,297.94	204,886.77	47.22	398,186.67	91.76	94.34%
85 MARION 3	2,856,111	681.470	4,191.10	32,116.86	47.13	64,126.04	94.10	99.66%
86 DILLON 1	4,299,572	1,029.705	4,175.54	48,649.65	47.25	97,256.00	94.45	99.91%
87 ORANGEBURG 8	2,299,872	556.625	4,131.82	26,207.75	47.08	53,129.75	95.45	102.73%
88 BARNWELL 19	4,343,932	1,147.665	3,785.02	54,157.98	47.19	119,581.29	104.20	120.80%
89 DILLON 3	6,036,394	1,620.545	3,724.92	76,264.39	47.06	171,577.61	105.88	124.98%
90 MARION 4	1,976,134	568.270	3,477.46	26,825.40	47.21	64,447.94	113.41	140.25%
91 CLARENDON 3	4,330,731	1,293.370	3,348.41	60,892.91	47.08	152,335.23	117.78	150.17%
TOTAL	$647,581,606	117,573.335	$5,507.90	$5,544,296.60	$47.16	$8,645,696.48	$73.53	55.94%
% SHARE	11.4%	20.0%		20.0%		31.2%		
STATEWIDE TOTAL	**$5,670,054,084**	**587,866.675**	**$9,645.14**	**$27,697,666.84**	**$47.12**	**$27,697,666.84**	**$47.12**	**0.00%**
STATEWIDE % SHARE	**100.0%**	**100.0%**		**100.0%**		**100.0%**		

Agency Comments

STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION
COLUMBIA 29201

CHARLIE G. WILLIAMS
STATE SUPERINTENDENT OF EDUCATION

MEMORANDUM

TO: Mr. George Schroeder, Director
Legislative Audit Council

FROM: Charlie G. Williams CGW
State Superintendent of Education

SUBJECT: State Department of Education's Response to A Limited-Scope Review of the State's System for Assessing and Funding School District Capital Improvement Needs

DATE: December 20, 1989

We have reviewed the December 18, 1989 draft report of the Legislative Audit Council to review the state's system for identifying and funding school district capital improvement needs, and recognize the narrow scope of the review, as stated on page v. We appreciate the assistance of the staff of the Council in documenting the magnitude of the problem facing school districts on school building needs.

It should be emphasized that the legal authority to determine the need for and use of public school buildings rests with the local school districts. The following statutory provisions clearly place the general, broad responsibility for determining school building needs with the local school districts:

A. Section 59-19-90. General powers and duties of school trustees. The board of trustees shall also:

(1) Provide schoolhouses. Provide suitable schoolhouses in its district and make them comfortable, paying due regard to any schoolhouse already built or site procured, as well as to all other circumstances proper to be considered so as best to promote the educational interest of the districts; ...

(5) Control school property. Take care of, manage and control the school property of the district; ...

(7) Control educational interest of the district. Manage and control local educational interest of its district, with the exclusive authority to operate or not to operate any public school or schools.

B. Section 59-21-360, which is part of the application procedure for school capital improvement funds, states that the county board of eduction is required to submit a survey to the South Carolina State Board of Education providing information on such topics as existing facilities, desirable consolidations, new construction and new facilities necessary for the public schools of the county. As the South Carolina Court of Appeals stated in Anderson County School District One vs Anderson County Board of Education, Opinion No. 1205 filed August 1, 1988, at page 50, "...the statutory scheme outlined by the legislature for obtaining school building funds places the power to award contracts for construction in the hands of the school districts. South Carolina Code Ann. Section 59-21-410 (1976). This power is consistent with the general obligation imposed by the legislature on school district trustees to provide suitable school buildings in their district. South Carolina Code Ann. Section 59-19-90(1) (1976). This power is also consistent with the current statutory scheme of application for school building funds from the state. This scheme places the application process in the hands of the school district."

The Summary Conclusion on Page vi which states, "We found that neither the State Department of Education nor any other state entity has an adequate system for assuring that local school districts' building and renovation needs are accurately and consistently identified (see p. 1)," is misleading in regard to the locus of responsibility. The responsibility for accuracy rests with local school districts in view of the fact that most of the costs for school building construction is borne by the local school district taxpayer. The General Assembly has left the responsibility for determining local school building needs with the local authorities rather than having State Government through the Education Department affirm or validate local decisions. The Department basically collected and summarized the local projections. The report is correct that no state level system exists for verifying the accuracy of the building needs as determined by the local authorities. Further, under the current funding system, such verification would be costly and of questionable value.

The implication that the Department of Education is responsible for determining local school building needs and findings that the Department of Education does not have such a statewide assessment system in place are unfounded due to: (1) a lack of authority to make such determinations, and (2) a rather clear and strong statement in the law that such responsibility is that of the local board of trustees.

The statements that follow are in response to the specific recommendations contained in the audit report.

SECTION 1
System for Assessing Local School Districts' Facilities Needs

1. If the Department of Education is again requested by the General Assembly to gather statewide information on school districts' facilities needs, it should take steps to increase the reliability of the survey responses. These steps could include pretesting questionnaires, clarifying written instructions and responses, and providing training for all districts to assure greater consistency in survey interpretation.

RESPONSE: The Department agrees with the concept that all appropriate steps should be taken to enhance reliability of responses to any survey. However, the Department takes issue with the implication of this recommendation, as well as some of the stated findings preceding this recommendation, that the 1989 survey is unreliable.

The Department has conducted statewide facilities surveys on three occasions in the last decade with a questionnaire format that has remained constant, with some changes made to increase clarity and thoroughness. For example, a sample of a properly completed form was included in the instructions in the 1989 administration. Also, a copy of each district's previously (1986) completed form was mailed with the instructions. For these reasons, a pretest was not deemed essential in the 1989 administration.

The survey responses were reviewed and analyzed for consistency and reliability. Responses to the 1989 survey were compared to responses on the 1986 survey and all significant deviations were reconciled through telephone conversations with the appropriate school district officials. Great care was exercised to assure that major items such as gymnasiums, libraries, and cafeterias were not double counted, i.e., reported separately and also reported as part of a new school. Some duplication was detected; however, this was corrected in the Summary Report. Overall, more than one-third of school districts were contacted to verify, clarify, and correct responses. The Department remains confident of the reliability of the survey as an estimate of statewide building needs as determined by the school districts. The targeted sample of questionnaire responses of the Council does not impact the summary judgement regarding the accuracy of the statewide estimate of $1.5 billion of building needs.

2. Alternatively, if the Department of Education is again requested by the General Assembly to gather statewide information on school districts' facilities needs, it may wish to consider reallocating its staff to expand its teams of facilities consultants. These teams, on a regular rotating schedule, could assess the building needs of all districts using standard criteria. A limitation of this approach is that the Department, even with reallocation of staff, might not have the staff to provide comprehensive information for all districts within the same year.

RESPONSE: The Department does not agree with this recommendation. As noted above, the legal responsibility for determining school building needs rests with the school districts. Some school districts employ staff for this purpose. Other districts use independent consulting firms specializing in this area, while others avail themselves of services provided at no cost by the State Department of Education. In any event, the determination of local school building needs rests with the local school districts, and it is the districts' choice as to the method they deem most appropriate for their individual situations. As noted in the Audit Report, the Department's survey staff is quite limited, and the Department does not agree with the recommendation to expand this unit. The staff re-allocation needed to initiate such an effort would negatively impact other priority areas.

3. If the General Assembly determines that a one-time baseline measure of facilities is needed, it may wish to consider contracting for such an assessment, to be conducted in close cooperation with the Department of Education and district personnel. This would provide information for all districts simultaneously.

RESPONSE: Should the General Assembly determine that a simultaneous on-site assessment of facilities is needed as a planning base, the Department agrees that it should be conducted by an independent third party. However, the Department believes that the surveys that have been conducted provide reliable estimates of the dimensions of the problem without expending funds for a detailed assessment.

4. If the General Assembly considers legislation to increase state funds for school construction, it may also wish to include a system to evaluate facilities needs and to allocate such funds.

RESPONSE: The Department of Education supports increases in state funds for school construction. In the event the General Assembly requires the establishment of a system to evaluate facilities and to allocate such funds, the Department of Education would request the resources and personnel necessary to implement the legal mandate.

SECTION 3
Cost Impact of Program Changes

5. The State Department of Education, with the cooperation of local school districts, should conduct a comprehensive analysis of the renovation and construction costs associated with proposed changes in mandated educational programs.

RESPONSE: The Department of Education concurs that it should conduct analyses of renovation and construction costs in the event that facilities are potentially impacted by proposed changes in State Board of Education regulations or standards for educational programs. However, in the event that proposed changes in mandates or standards are included in legislative initiatives, analyses of building costs should be conducted during the course of legislative consideration.

SECTION 4
Local Financing of Capital Improvement Needs

6. The General Assembly may wish to consider requiring that debt limits be preceded by formal analysis and that specific factors be used in this analysis.

7. The General Assembly may wish to consider replacing the current method of limiting debt with a debt service limit based on actual district revenues.

RESPONSE: Before the General Assembly considers any actions regarding the debt limit of local school districts, several actions may be appropriate: (1) a thorough study initiated by the General Assembly to determine a more appropriate system for funding school building construction in the State; (2) a separate study by a professional group with expertise in this area to review how the local funding responsibility fits with the State's responsibility (This could be a component of the study listed in Item #1 rather than a separate study); and, (3) a determination of the most appropriate factors to be utilized in establishing local school districts' debt limit to finance their share of the state's plan for school construction.

SECTION 5
State Funding and District Wealth

8. The General Assembly may wish to consider alternative methodologies for allocating state Capital Improvement Funds.

RESPONSE: The Department of Education agrees that in any comprehensive plan to address the existing statewide school building needs, alternative methodologies for allocating funds should be carefully considered.

Section 2, "Funding Levels Adjusted for Inflation," documents the impact of inflation on the state funding provided to school districts for school building needs. This erosion of purchasing power was addressed by the Department in the FY 1990-91 Budget Request submitted to the State Budget and Control Board.

This Legislative Audit Council report addresses a crucial issue affecting the future of public education in South Carolina. Hopefully, the report, this response, and ensuing discussions will provide some insight to the General Assembly in its consideration of this issue.

CGW/kop

Legislative Audit Council

400 Gervais Street
Columbia, SC 29201
(803)253-7612

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